

BUSINESS CONDITIONS

A Review by the Federal Reserve Bank of Chicago



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Business Conditions in the Seventh Federal Reserve District

Business in the Seventh Federal Reserve District during February and the first half of March reflected the transition to a full war economy. Production and employment rose in some industries and fell in others as the combination of capital, materials, equipment, and men united quickly on new products or encountered delays because of changeover problems, restrictions, and shortages. The result has been a decrease in employment and in payrolls, although both were of slight proportions. Retail trade was harried by occasional stampedes of buyers who were alarmed by announcements of future rationing or impending restrictions.

The shifting of the automobile industry to war production has resulted in considerable idleness and has been the principal cause of a decline in the index of total manufacturing employment in the District. Payrolls generally held up better than employment as skilled, higher-paid workers are generally retained. Wage rates continued to advance and operating schedules were lengthened. Employment this February, in manufacturing industries as a whole, exceeded that of last year by 9 per cent, while the corresponding wage payments showed a gain of 23 per cent.

Each month the steel industry crowds production to new levels and exceeds its rated capacity by larger amounts. The estimated production for the month of March is 1,360,000 net tons. Of special importance to the industry and, therefore, to the entire war production program was the opening of Great Lakes navigation on March 19. This date marks the earliest opening of those shipping lanes in history.

Output of bituminous coal in the producing States of the Seventh District was at a slightly lower rate in February than in January and showed a further decline in the early part of March. The output continues above that of a year ago, but the difference has narrowed from 16 per cent in January to 9 per cent in February, and will probably disappear altogether in the final reports for March, as this month last year was greatly affected by the anticipated closing of the mines in April.

Transportation problems have been engaging the attention of the oil industry in this District and in the nation. There has been a decline in the output of crude oil in the Illinois territory during March and the daily average for the week of March 14 went below that for the correspond-

ing week of last year. This is the first time such a decline has been recorded in 1942. Runs of crude oil to refineries and the production of gasoline reported for the Illinois-Indiana-Kentucky area continue greatly in excess of the corresponding volumes of a year ago. While stocks of gasoline in this reporting area have been rising this year, those of fuel oil have been declining sharply.

Despite the limitations that have been imposed on the construction industry by scarcity of materials and priority regulations, the volume of contracts awarded so far this year has been substantially higher than in the corresponding months of 1941. Contracts awarded in the first half of March, however, were considerably below those of a year ago when industrial plant expansion was at a peak.

Orders received during February by furniture manufacturers in this District fell off considerably from the peak reached a month earlier, while shipments registered a substantial increase. Unfilled orders at the end of the month totaled 8 per cent less than at the close of January, but remained at a level about 35 per cent higher than a year ago.

Hog marketings have been reduced sharply in recent weeks, while a continued strong demand for pork and lard brought a marked increase in hog prices during February and early March. The temporary price ceiling on wholesale pork prices became effective March 23 at levels prevailing March 3-7. Marketings of slaughter cattle decreased from the January level, but were considerably larger than for February of last year. Federally inspected slaughter of cattle showed a corresponding decline from January but an increase of about one-fourth over February 1941.

Retail trade, as reported to the Federal Reserve Bank of Chicago, has been holding to a gain of about 20 per cent over corresponding weeks of a year ago. This margin has been maintained for the past seven weeks. The increased dollar volume of sales, however, has been accounted for in the most part by the rise in retail prices. The level of retail prices on February 1 was 17 per cent over that of a year ago and on March 1 the increase was more than 18 per cent. The weekly reports of department store sales show no indication that the income tax payments interfered with sales.

Rising Pork Prices Checked by OPA

Rapidly rising pork prices were put in check by the Office of Price Administration on March 10 when that agency announced that ceilings would be effective March 23 on wholesale pork products. Spurred by increasing consumer demand, lend-lease purchases, and buying for the armed services, prices recently have climbed rapidly, abetted by seasonal declines in marketings.

The basis of the ceilings is the highest of the prices received by sellers during the period March 3-7. These prices are those shown by the verified price lists of sellers, who were also required to submit verified lists for the period February 24-28 as a check against the possibility that lists for the later period may have carried precautionary rises in the knowledge that some ceiling was pending. Sellers may also be required to "verify" the lists by showing that sales were actually realized at the listed prices.

The ceiling is a temporary measure, expiring at the latest 60 days after March 23, and is subject to amendment in the interim. The OPA announced that the temporary ceiling will be followed by a permanent one, and extensive consultation with leaders in the industry has already been held with respect to the permanent ceiling. At these conferences competitive and individual problems were considered with respect to the temporary ceiling. Packers asked that a ceiling also be put on live hog prices, but OPA officials have made no announcement with regard to live animal ceilings. At the time the temporary order was issued it was felt that wholesale prices had been selected in preference to live animal prices in order to force the packing industry to bid the hogs up, thus policing its margins and saving the OPA this administrative problem. The permanent ceiling is expected to be effective May 1, somewhat ahead of the 60-day legal limit to the temporary ceiling.

Retail prices are not regulated by the ceilings. The OPA said on announcing the temporary ceiling that, for the present, retail margins would be watched, and that it hoped that the competition between retailers would keep the margins in line with replacement costs. However, on March 27 the agency called on butchers and retail meat markets not to raise prices above the mid-March levels, since they were protected by the March 10 ceiling from rising wholesale costs. OPA also called upon consumers to report directly to the

agency any marked rises in retail prices and urged consumers to buy less pork because large supplies are needed for military and lend-lease requirements.

An amendment to the temporary ceiling was announced on March 24 by which sellers were allowed a two-cent markup above the March 3-7 levels for sales to government purchasing agencies. This was to correct a situation not covered by the original order, a situation in which sellers incurred additional costs for selection and cutting to government specifications. Since recovery of such costs was not covered in the temporary price ceiling, the government agencies were finding difficulty in obtaining sufficient supplies to carry out their purchase programs. Similar corrections were made for canned and packaged spiced hams and luncheon meats made entirely of pork for government order.

On March 31 the ceiling order was further amended to alleviate the financial hardship on those dealers (mostly small sellers) who had to buy on the "replacement cost" basis from other sellers, that is: at the March 3-7 level, and whose custom is to quote and sell on "first in, first out" inventory basis. This meant that these dealers quoted and submitted lists of such quotations, based upon the lower price levels of February 24-28, whereas prices to them were on the higher basis of March 3-7. Thus a disadvantageous situation had been frozen into their "ceiling" prices. The adjustments allowed in the amendment ranged from $\frac{1}{4}\text{¢}$ to $1\frac{1}{4}\text{¢}$ on eight different types of nonperishable processed, cured, smoked or salt pork products.

Prior to the ceiling announcement, hogs at Chicago had climbed steadily from an average just above \$11 in mid-January to \$13.55 the day before the ceilings were announced. In the two weeks after the March 10 announcement the average remained at or below \$13.50, with the top prices at or below \$13.65. But extremely short supplies and heavy demands forced a rise in Chicago prices beginning March 27, which brought a 16-year record top of \$14.55 on April 8 and an average of \$14.30. All buying interests were complaining that such prices brought live animals entirely out of line with the wholesale ceilings as set by March 3-7 levels, when the maximum top was \$13.50 and the average \$13.25. The situation is expected to change shortly when spring marketings get under way, increasing supplies available.

The Automobile Conversion

The Detroit area is currently the nation's conversion laboratory, as the automobile industry struggles from a peace to a war footing. Contracts involving \$12 billions of annual output have been awarded to this industry. Approximately two-thirds of this amount is to be let out for sub-contract, mostly to parts manufacturers who have had long-standing "sub-contract" relations with the industry. Production in 1942 is expected to aggregate between \$5 and \$6 billions, the great bulk of it from new plants built for war purposes. In terms of actual physical goods, the industry has been made responsible for 50 per cent of America's airplane motors, 54 per cent of machine guns, 91 per cent of tanks and tank parts, 100 per cent of all trucks and motorized vehicles, as well as a host of smaller items. In general, the larger concerns with the greater research facilities are undertaking the more difficult branches of production (aircraft and tanks) while the smaller companies are specializing on trucks, combat cars, and other vehicles more similar to civilian output. The industry considers its war effort as roughly equivalent to the production of 15 million civilian cars and trucks a year; the industry's record production in peacetime was 5.4 million in 1929.

The first step in this task was the drastic curtailment of civilian production. Output of civilian passenger automobiles stopped February 10. Production of trucks for civilian use continues, but is limited to the assembly of parts already fabricated. Functional replacement parts are being produced through June 30 on a scale which is planned to equal 150 per cent of the entire 1941 output and provide a stockpile through 1943. After that date, parts production will cease as well, unless material shortages prevent achievement of the production goal. Buses of over 15-person capacity are permitted unlimited production, with output running at 238 per cent of last year's. The savings in materials resulting from the curtailments have been estimated on the basis of a normal model year of 3 million vehicles (1941 model production was 5.1 million) as enough steel and rubber for 125,000 medium tanks, enough tin for 3 billion cans of average size, enough aluminum for 42,857 fighter planes, enough nickel for 150,000 tons of nickel steel for armor plate and projectiles, and enough zinc and copper for more than 7 billion cartridge cases.

But curtailing civilian goods is only the first step in producing war implements. New plants must be built, and old ones converted drastically.

Thousands of men must be temporarily deprived of employment on civilian production. Detroit is getting the goods produced, and as this is written, the employment crisis seems to be past.

The dreaded priorities unemployment, which affected 110,000 people in Detroit and 130,000 in the rest of Michigan at the beginning of February, has subsided. Perhaps 70,000 in Detroit and 50,000 elsewhere in Michigan remain unemployed. (These estimates include not only persons filing claims against Michigan for unemployment compensation, but also in-migrants unable to find work, and unemployed persons who do not register for benefits.) The Detroit Board of Commerce index of Detroit employment rose to 109.9 on a 1923-25 base for March 15, after falling from 126.7 in June 1941 to 102.7 in the last half of January and 102.5 in the first half of February, when civilian production of passenger cars was halted. The balance of inter-regional migration, which was against the Detroit area for both January and February, and against the State of Michigan in February, has turned again in March.

Even at its worst, Detroit's priorities unemployment was not so severe as anticipated. The principal reasons for this were the acceleration of replacement parts production, the retention of skilled employees despite lack of work, and absorption of workers by new plants. Thus, a decline of 20.5 per cent in Michigan's automobile employment between January and February resulted in only a 7.3 per cent decrease in employment in all Michigan manufacturing industries. Retention of skilled men is reflected in the much smaller decline in manufacturing payrolls of only 5.2 per cent from January to February. Meanwhile the State of Michigan has raised the maximum level of unemployment compensation from \$16 to \$20 weekly, lowered the waiting period from two weeks to one, and raised the benefit period from 18 weeks to 20. The demand for Federal aid for the priorities unemployed has subsided following defeat of two proposals by Congress. Detroit war plants are estimated to be hiring some 25,000 workers a month gross, or 12,500 net (decrease in civilian employment accounting for the remainder), and this number will increase before the end of the year.

July is now the most probable date at which the (former) automobile industry will employ approximately as many men as at its peak in June 1941—543,000 for the entire United States. But conversion will not have been accomplished

by this date. Large segments of the automobile plants will still be unused, with completely new plants furnishing most of the industry's employment. The most optimistic estimate of the date of complete conversion is September 1.

The slowness of conversion is basic to the friction between the automobile companies and the United Auto Workers (CIO). The union accuses the companies, particularly the "Big Three"—General Motors, Chrysler, and Ford—of attempting to minimize conversion, so that they may secure competitive advantage when civilian production is resumed. It demands a voice in management primarily for the purpose of speeding conversion. It refuses to modify its demands for wage increases, greater vacation pay, time-and-a-half for overtime work, etc., until given evidence of management's sincerity in accelerated conversion. However, the union has already voted to abandon its claim for Sunday double-time within the forty-hour week, after it had been granted by an arbitrator, and has agreed to the outlawing of strikes. The management, on its part, blames the slowness of conversion on material bottlenecks, and points to the pooling of machines and processes between the companies as evidence of its abandonment of competitive practices. Among management's demands to the union are a cessation of criticism in the union press and the elimination of slowdowns. These controversies are brought to a head by the current negotiations regarding revision of the Auto Workers' collective bargaining contract with the General Motors Corporation. A similar revision of the union's contract with Chrysler will occur later this spring.

With automobile employment scheduled to exceed 800,000 by the coming winter and a million next spring, a labor shortage is expected to be added to the existing bottlenecks. The size of this shortage is estimated at 190,000, chiefly in skilled trades. This estimate makes no allowance for persons leaving the Detroit area permanently as a result of priorities unemployment. Such permanent out-migration is not expected on a serious scale, because Detroit wage-rates are comparatively high. There has been a substantial efflux of unemployed workers to the smaller towns of Michigan and to Kentucky, Tennessee, Missouri, and Arkansas (traditional sources of labor for Detroit factories). This movement is not unusual, can be explained by desire to escape Detroit's high living costs during the period of unemployment, and is already being reversed. Indeed, the anticipated shortage is already real for many small concerns, who are not willing to

hire unemployed workers with seniority at the larger plants for fear of losing them before they are acclimated to their new duties. Plans to increase the labor force are in operation. There is a relaxation of age restrictions; "old at 45" is no longer the rule. Women are being trained for skilled and semi-skilled occupation. A program of training has prepared for the up-grading of perhaps 100,000 workers, 80,000 of whom have had their training within industry. The union will permit the employment of these up-graded workers, but will allow them seniority rights only in their previous occupations or as unskilled labor.

Rather than the automobile workers, the nation's 44,000 dealers and their employees have been the principal victims of the automobile conversion. Much publicity has been given particular dealers who have the equipment and connections requisite for conversion to defense subcontractors, who have gone into alternative lines such as selling beer or refrigerators, who have utilized their vacant space for bowling alleys or roller rinks. The fact remains that the great majority of dealers depends for survival upon used-car sales and on repair business. In the Chicago area, perhaps half of these is expected to go out of business within a year.

There are from 400,000 to 480,000 new cars available for rationing among the American public, following the delivery in February of vehicles purchased but not delivered prior to the rationing order. The corresponding figure for trucks is approximately 130,000. The stock of used cars on hand is about 560,000, a 2½-month supply under normal conditions.

Dealers are dissatisfied with the working of the rationing program for new automobiles. The Office of Price Administration originally planned to distribute some 145,500 cars in the first three months of rationing (March 2-May 31), over 35 per cent of the entire year's total of 340,000 cars to be distributed. (This early distribution was designed to lessen dealers' storage charges.) These cars were to be priced as of last October, with an additional one per cent (not over \$75) added for each month of storage. These were to be distributed by areas according to 1941 registrations, the total distributions for 1942 in Seventh District States being as follows: Illinois, 8,789; Indiana, 3,970; Iowa, 2,071; Michigan, 8,289; Wisconsin, 2,923.

Difficulty has arisen from the requirement that claimants prove need for new cars, which is almost impossible in view of the available stock of

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Finding the Tools for the Farm

Widespread conversion to war production has been in order for the farm machinery and equipment industry in the past several months. In addition to the mass needs of the war being supplied in part by this industry, the needs on the part of agriculture are probably the most acute of any time in the history of the industry. The needs for agriculture spring from two sources. In the first place, labor shortage on the farm presents a serious problem to producers for the current year. The selective service draft and the rapidly expanding industrial demand for labor have transferred a substantial part of the farm labor supply from the farm to training camps and urban industrial centers. This shift comes at a time when national production goals call for expanded output in 1942 in nearly all lines of agriculture. The expansion of production in certain commodities, such as dairy products, soybeans, peanuts, and poultry, called for by these goals requires substantial additions to available equipment and machinery. This program of expanded production is the second source of need for agricultural machinery and equipment.

Restriction of materials available for production of agricultural items is the most important problem of the industry. As a result of many conferences, the industry, the Department of Agriculture officials, the War Production Board, and other governmental agencies worked out a schedule for 1942 machinery production. This was announced around the first of the year and applied to the industry's operating year, November 1, 1941 to October 31, 1942. Strategic materials, mostly iron and steel, were "allocated" to permit 83 per cent of the 1940 production of new farm machinery, and about 150 per cent of the 1940 tonnage of repair parts. The schedule set forth permitted production for each and every type of farm equipment. Since the schedule was framed with the 1942 agricultural production goals in mind, the most generous parts of it were for those items of equipment needed to meet the expanded goals for such items as dairy products and oil crops.

For example, milking machines and medium-sized cream separators were scheduled at a permitted production more than double the 1940 figures, while milk coolers and butter-making

machinery were permitted substantial increases over the 1940 base. The largest single increase was for hay press combines, which were scheduled at more than three and a half times the 1940 production. But substantial increases ranging up to double the 1940 output were scheduled for two-row tractor-drawn combination corn and cotton planters, for listers with planting attachments, for one-row corn pickers, and for peanut pickers.

Under these schedules the tonnage of critical materials available was expected to be 1,124,000 tons for new machines for domestic use, 497,000 tons for domestic repair parts, and 172,600 tons for new machines and repair parts for export. According to figures released by the Farm Equipment Institute, the 1940 use of these critical materials was 1,355,000 tons for new domestic machines, 330,700 tons for domestic repair parts, and 182,700 tons for export uses.

The magnitude of the problem of supplying agriculture's needs may be seen from a comparison of these 1942 allocations with some of the production records. The 1940 output of machinery and equipment went to farms where labor shortage was not a serious problem. A few cases will illustrate the difficulties involved in translating 1940 bases into 1942 needs. In 1940 a total of 41,450 combines (family-sized, 6-feet and under) was produced, of which 34,500 were sold. The schedules for 1942 permit 92 per cent of the 1940 total to be produced, if material can be obtained, which would be roughly 38,100. However, 1941 sales of this size combine amounted to 51,800. The 1942 needs for this item will be even greater because of the expanded soybean goals. Farmers could get at most, under the schedule, less than three-fourths of the 1941 supply. In the case of the "all purpose" tractor, under 30 horsepower, on rubber, the 1940 production was 193,000. Permitted production for 1942 is to be 156,000, while in 1941 actual sales amounted to 251,000 units. This means that if all the permitted production is realized farmers will be able to buy less than two-thirds as many in 1942 as in 1941, to meet the growing labor shortage, a situation in which this size tractor would be particularly helpful. But aside from the impossibility of getting even the allotted critical materials, further complications have arisen in con-

nection with this item. Rubber shortage has led to a WPB order prohibiting the production of farm tractors requiring rubber after May 1. Meanwhile, output of rubber-tired tractors was reduced for March to 55 per cent of the January-February output, and April production was ordered reduced to 40 per cent of this output. This order called for a changeover to steel-wheeled equipment as rapidly as possible. This has necessitated substantial revision of designs, with changed rear-axle gear ratios on the smaller models, reinforcement of frame and chassis, and considerable changes on even the larger models.

It is reported in the industry, however, that only about one-half the materials allotted for fulfilling these schedules is obtainable. Demands for machinery are greatest for those pieces, such as tractors and dairy equipment, needed to relieve labor shortage and for special crops such as peanuts. Shortages will be most acute in combines. It is estimated in the industry that 8,000 combines are badly needed over and above the quota set up in the schedules.

Additional allocations of 25,000 tons of strategic materials were made on March 31 by WPB to the farm equipment and machinery industry. This is in addition to the 1,794,000 tons previously allocated. A total of 17,000 tons in this order was for irrigation equipment; 1,733 tons for 3,600 peanut pickers needed in the expanded oil production program; 4,800 tons for one-row tractor drawn or mounted cultivators; the remainder of the allocation is for various items, such as beet cultivators, drills and lifters, potato planters, and steel plow shares.

Shortages are expected to be particularly acute in those areas where the spot increases in production under the food goals are the greatest. Some of this situation is attributable to the nature of the industry's forward planning, under which orders and delivery anticipate needs by several months. Spot increases in output of equipment are only now going into the hands of farmers who had no chance to have their needs covered last fall when the forward planning of the industry was carried out.

Some companies in some instances have reserves of materials which are more than sufficient for this year's production, but in most cases

these will be carried over to serve next year's production where they are not drawn on to meet war needs. Estimates in the industry are that about 40 to 50 per cent of the man-hour production of the plants, taken as a whole, is now converted to war production. In view of the materials situation many comments have been made indicating that plastics and other substitutes were receiving wide use in the industry. Contrary to such opinion, the substitution of materials has been very much limited. It has been the experience of the industry that as soon as substitution has been attempted a tight situation has developed in the substitute materials as acute as that of the basic critical materials.

As yet there is no serious labor shortage situation in the industry, although this is reported to be getting tighter. The industry is teaching such skills as are needed, and at present skilled labor appears to offer no serious bottleneck.

Stocks of repair parts for the 1942 season are in general reported to be ample, due largely to forward buying by farmers. The government-sponsored repair program is believed to have moved the buying date up for most farmers, although this may leave the ability to meet needs later in the season a question, with the possibility that dealer's supplies will be "spotty." Shortages in repair parts may develop for rubber items, valves and pistons, and other precision-made parts. Local blacksmith and machine shops are expected to make the bulk of repairs needed during the operating season. Replacements of wearing parts are believed to be generally ample unless unusual seasonal conditions develop, such as occurred in 1941 when heavy soil put a burden on such items as corn-pickers.

Retail prices of machinery and equipment have been the subject of a request by the OPA to dealers. In general this request included suggestion that prices be no higher than manufacturers' suggested price lists or "mark-ups," elimination of unjustified trade-in margins and unnecessary charges and expenses, and sales of services and parts at "reasonable" rates, uniform to all customers. It is probable, according to observers in the industry, that suggested mark-ups will be met for the first time in several years in the face of a "seller's market."

Money Market in March

Treasury operations dominated money market developments in March. Income tax receipts and war expenditures rose to new peaks. Careful preparation prevented any strain on the money market around the quarterly tax date.

Treasury Finance

War expenditures in March amounted to \$2,797 million, as compared with \$2,201 million in February and \$2,101 million in January. Income tax receipts in March were \$3,083 million. In March last year such receipts amounted to \$1,208 million.

In March total sales of defense savings bonds in the nation were \$558 million, as compared with \$703 million in February and \$1,061 million in January. Sales of Series E bonds amounted to \$338 million in March and \$398 million in February. March sales of Series F and G bonds amounted to \$41 million and \$179 million, respectively. The decline in sales of savings bonds in March probably was the result of payment of income taxes.

In March, the Treasury received in payment of taxes \$505 million of Treasury tax notes. Sales of tax notes in March amounted to \$235 million. On March 31, tax notes outstanding amounted to \$2,536 million, as compared with \$2,807 million on February 28.

On April 6, Secretary of the Treasury Morgenthau announced the offering for cash subscription of \$1,500 million or thereabouts of $\frac{1}{2}$ per cent Treasury certificates of indebtedness. The certificates will be dated April 15, 1942 and will be payable on November 1, 1942.

Excess Reserves

Strain on the money market in the quarterly tax period was averted by drawing down of Treasury deposits with the Federal Reserve banks to a very low level through heavy war expenditures and payments of interest on the public debt before the tax date, and payment in cash, without replacement, for three maturing issues of Treasury bills on March 16, 17, and 19, amounting to \$450 million. The net result of these operations is reflected in the level of Treasury deposits with Federal Reserve banks. Such balances declined from \$798 million on February 25 to \$59 million on March 18. In the following week, Treasury deposits with Federal Reserve banks rose to \$472 million, as a result of income tax receipts in excess of expenditures, but declined to \$362 million on April 1, as a result of the continued high level of war expenditures.

TREASURY BILLS OUTSTANDING AND HELD BY WEEKLY REPORTING MEMBER BANKS MARCH 11-APRIL 1 (In millions of dollars)

| | Increase or Decrease in Week Ending | | | |
|--|-------------------------------------|---------|---------|---------|
| | Mar. 11 | Mar. 18 | Mar. 25 | April 1 |
| Outstanding..... | 0 | -300 | 0 | +150 |
| Holdings of weekly reporting member banks: | | | | |
| New York City..... | +13 | -112 | -33 | +3 |
| Chicago..... | +28 | -1 | -56 | -285 |
| 99 other cities..... | -2 | -58 | -55 | +39 |
| Holdings of others than weekly reporting member banks..... | -39 | -129 | +144 | +393 |

Excess reserves of all member banks declined from \$3,270 million on April 11 to \$3,160 million on March 18 and \$2,850 million on March 25, but rose to \$3,000 million on April 1. From March 18 to March 25, excess reserves of New York central reserve city member banks declined \$55 million, excess reserves of Chicago central reserve city member banks rose \$75 million, and excess reserves of reserve city and country member banks declined \$330 million.

Currency in circulation declined \$58 million in the two weeks ending March 25, but rose by \$131 million to a new record high of \$11,593 million on April 1. Federal Reserve holdings of Government bonds declined \$18,250 thousand from March 4 to March 25.

Illinois Tax Date

Movements in excess reserves, deposits, and bill holdings of Chicago banks in the last week of March reflected the approach of April 1, the assessment date for personal property taxes levied on bank deposits in the State of Illinois. Gross demand deposits of Chicago central reserve city member banks declined \$383 million from March 25 to April 1. This decline was due in part to purchase of Treasury bills and in part to a transfer of balances to other States. Holdings of Treasury bills of weekly reporting member banks in Chicago declined \$56 million in the week ending March 25 and \$285 million in the week ending April 1. To a great extent, the decline in Treasury bill holdings of Chicago member banks was due to sale of Treasury bills to non-bankers in Illinois. Excess reserves of Chicago central reserve city member banks declined from \$333 million on March 28 to \$276 million on April 1.

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used ones. Rationing boards have, therefore, been more stringent in their restrictions than was originally planned, new car sales have been less than anticipated, and the dealers' problems have been greater.

Demand for used cars, too, has fallen off at least temporarily, because of gasoline and tire restrictions. While a late-model car with good tires continues to find a ready market at a price comparable to that of a new car, the generality of used cars is piling up in dealers' stocks. The peacetime rate of scrappage (5000-6000 a day) seems to be undergoing the expected decline because of the reduction in driving. Even the volume of repair work is reported to have decreased at least temporarily since Pearl Harbor, for the same reason. Eventually, of course, the demand for repairs and for used cars will turn upward again, but the rate is difficult to forecast.

The automobile manufacturers are attempting to aid dealers and maintain dealer goodwill, by encouraging frequent repairs and overhauling of cars. Some of the companies are buying back stocks of new cars from the dealers, and assuming storage charges themselves. This relief measure is adopted chiefly by companies who have sold to dealers on credit and maintain substantial equities in dealers' stocks. The dealers, speaking through the National Association of Automobile Dealers, desire a government-owned corporation to purchase these stocks at a cost midway between manufacturers' and retail prices, as well as stocks of other frozen commodities. Senator Murray of Montana and Representative Patman of Texas have introduced this bill into the Senate and House, respectively.

HOG-CORN RATIOS

| | March 1942 | February 1942 | March 1941 | March 1940 |
|--------------------|------------|---------------|------------|------------|
| Illinois..... | 17.1 | 16.5 | 13.2 | 9.6 |
| Indiana..... | 15.9 | 15.6 | 12.9 | 9.6 |
| Iowa..... | 17.6 | 16.7 | 14.7 | 10.0 |
| Michigan..... | 15.2 | 14.6 | 11.7 | 9.4 |
| Wisconsin..... | 15.8 | 15.1 | 12.7 | 8.7 |
| United States..... | 15.7 | 15.2 | 12.4 | 8.7 |

Source: Bureau of Agricultural Economics, United States Department of Agriculture.

SALES OF INDEPENDENT RETAIL STORES SEVENTH FEDERAL RESERVE DISTRICT

| | Per Cent Change February 1941 to February 1942 | | | | |
|--------------------------------------|--|---------|------|----------|-----------|
| | Illinois | Indiana | Iowa | Michigan | Wisconsin |
| Total All Groups*..... | +10 | +11 | +14 | +4 | +15 |
| Apparel Group..... | +33 | +38 | +34 | +23 | +38 |
| Drug Stores..... | +13 | +17 | +13 | +18 | +12 |
| Eating and Drinking Places..... | +14 | +17 | +10 | +13 | +14 |
| Food Group..... | +15 | +21 | +18 | +13 | +16 |
| Furniture-Household-Radio Group..... | +24 | +11 | +30 | +5 | +35 |
| Hardware Stores..... | +36 | +56 | +50 | +31 | +47 |
| Jewelry Stores..... | +14 | +35 | +17 | +5 | +29 |
| Lumber and Building Materials..... | +1 | +14 | +6 | -8 | +11 |
| Motor Vehicles Dealers..... | -73 | -60 | -62 | -77 | -63 |

*Includes classifications other than those listed.

WHOLESALE TRADE SEVENTH FEDERAL RESERVE DISTRICT

| Commodity | Per Cent Change February 1941 to February 1942 | | | |
|-------------------------------|--|--------|----------------------|-------------|
| | Net Sales | Stocks | Accounts Outstanding | Collections |
| | | | | |
| Drugs and Drug Sundries..... | +18 | +20 | +16 | +25 |
| Electrical Goods..... | +38 | +57 | +41 | +57 |
| Groceries..... | +30 | +23 | +21 | +33 |
| Hardware..... | +62 | +18 | +17 | +46 |
| Jewelry..... | +38 | +20 | +17 | +25 |
| Meats and Meat Products..... | +66 | +66 | +77 | +90 |
| Paper and Its Products..... | +21 | +47 | +28 | +46 |
| Tobacco and Its Products..... | +8 | +45 | +9 | +13 |
| Miscellaneous..... | +31 | +22 | +27 | +42 |
| Total..... | +37 | +26 | +22 | +43 |

Source: Bureau of the Census, United States Department of Commerce.

DEPARTMENT AND APPAREL STORE TRADE SEVENTH FEDERAL RESERVE DISTRICT

| Locality | Total Net Sales | | | Per Cent Change February 1942 January and February 1941 | | | Stocks on Hand (End of Month) | | Orders Outstanding | |
|---------------------|--|------------------|--|--|-----------------|------------------|--|------------------|-----------------------|------|
| | Per Cent Change February 1942 from | | Per Cent Change February 1942 from | | | | Per Cent Change February 1942 from | | | |
| | January 1942 | February 1941 | | January and February 1941 | January 1942 | February 1941 | January 1942 | February 1941 | | |
| | | | | | | | | | | |
| Chicago..... | -18 | +14 | +25 | + 7 | - 4 | +18 | +17 | +28 | +32 | +140 |
| Peoria..... | - 7 | +19 | +26 | .... | .... | .... | .... | .... | .... | .... |
| Fort Wayne..... | -13 | +37 | +48 | .... | .... | .... | .... | .... | .... | .... |
| Indianapolis..... | -17 | +27 | +34 | +19 | +13 | +36 | +24 | +54 | +10 | +116 |
| Des Moines..... | -16 | +17 | +28 | .... | .... | .... | .... | .... | .... | .... |
| Sioux City..... | -11 | +11 | +16 | .... | .... | .... | .... | .... | .... | .... |
| Detroit..... | - 9 | +28 | +36 | .... | .... | .... | .... | .... | .... | .... |
| Flint..... | - 6 | - 9 | + 2 | .... | .... | .... | .... | .... | .... | .... |
| Grand Rapids..... | -19 | +12 | +27 | .... | .... | .... | +14 | +54 | +24 | +113 |
| Lansing..... | -15 | +12 | +27 | .... | .... | .... | .... | .... | .... | .... |
| Milwaukee..... | -13 | +31 | +36 | +21 | +26 | +30 | +10 | +31 | +36 | +204 |
| Other Cities..... | -10 | +23 | +33 | +18 | + 9 | +24 | +16 | +29 | + 1 | + 63 |
| Total..... | -14 | +21 | +30 | +14 | +10 | +25 | +23 | +35 | +25 | +161 |
| Apparel Stores..... | -24 | +29 | +37 | +22 | .... | +37 | +14 | +28 | +43 | +100 |

| RECEIPTS AND SHIPMENTS OF GRAIN At Interior Primary Markets in the United States (In thousands of bushels) | | | | | |
|---|---------------|---------------|--|---|--|
| | March 1942 | March 1941 | Per Cent Change Mar. 1942 from Mar. 1941 | Ten-Year Average March 1932-41 | Per Cent Change Mar. 1942 from Ten-Year Average |
| WHEAT: | | | | | |
| Receipts..... | 17,565 | 12,870 | +36.5 | 11,713 | +50.0 |
| Shipments..... | 11,167 | 9,293 | +20.2 | 9,252 | +20.7 |
| CORN: | | | | | |
| Receipts..... | 24,533 | 18,738 | +30.9 | 15,309 | +60.3 |
| Shipments..... | 17,736 | 9,231 | +92.1 | 7,689 | +130.7 |
| OATS: | | | | | |
| Receipts..... | 5,346 | 4,641 | +15.2 | 4,694 | +13.9 |
| Shipments..... | 5,426 | 3,811 | +42.4 | 5,308 | +2.2 |

Source: Daily Trade Bulletin.

Note: Not strictly comparable between dates because of changes in number of reporting markets.

| UNITED STATES FEDERALLY INSPECTED SLAUGHTER (In thousands) | | | | | |
|--|------------------|------------------|---|--|--|
| | February 1942 | February 1941 | Average of 5 Years February 1937-41 | Per Cent Change Feb. 1941 to Feb. 1942 | Per Cent Change Feb. 1942 from 5-Year Average |
| Hogs..... | 3,892 | 3,725 | 3,313 | + 4.5 | +17.5 |
| Cattle..... | 891 | 717 | 702 | +24.3 | +26.9 |
| Calves..... | 392 | 354 | 396 | + 2.1 | - 1.0 |
| Lambs and Sheep..... | 1,407 | 1,391 | 1,361 | + 1.2 | + 3.4 |

Source: Agricultural Marketing Administration, United States Department of Agriculture.

| MONTHLY BUSINESS INDEXES | | | | | | | |
|---|--------------|--------------|--------------|--------------|--------------|--------------|--|
| Data refer to Seventh District and are not adjusted for seasonal variation unless otherwise indicated. 1935-39 average = 100 | | | | | | | |
| | Feb. 1942 | Jan. 1942 | Dec. 1941 | Feb. 1941 | Jan. 1941 | Dec. 1940 | |
| Manufacturing Industries: | | | | | | | |
| Durable Goods: | | | | | | | |
| Employment..... | 143 | 148 | 153 | 132 | 131 | 130 | |
| Payrolls..... | 195 | 196 | 192 | 150 | 152 | 152 | |
| Non-Durable Goods: | | | | | | | |
| Employment..... | 114 | 114 | 118 | 102 | 102 | 105 | |
| Payrolls..... | 139 | 140 | 143 | 113 | 111 | 117 | |
| Total: | | | | | | | |
| Employment..... | 133 | 137 | 141 | 122 | 121 | 122 | |
| Payrolls..... | 178 | 178 | 177 | 145 | 140 | 142 | |
| Pig Iron Production: * | | | | | | | |
| Illinois and Indiana..... | 207 | 205 | 208 | 193 | 187 | 184 | |
| Automobile Production (U. S. and Canada): | | | | | | | |
| Passenger Cars and Trucks..... | 46 | 78 | 90 | 152 | 156 | 151 | |
| Casting Foundries Shipments: | | | | | | | |
| Steel—In Dollars..... | 449 | 468 | 480 | 195 | 196 | 178 | |
| In Tons..... | 223 | 245 | 246 | 160 | 169 | 160 | |
| Malleable—In Dollars..... | 202 | 205 | 230 | 162 | 164 | 167 | |
| In Tons..... | 164 | 164 | 188 | 148 | 150 | 158 | |
| Furniture Manufacturing: | | | | | | | |
| Orders in Dollars..... | 141 | 190 | 110 | 161 | 193 | 101 | |
| Shipments in Dollars..... | 170 | 149 | 195 | 143 | 108 | 139 | |
| Paper Manufacturing: * | | | | | | | |
| Tonnage Production..... | 147 | 139 | 139 | 120 | 115 | 108 | |
| Petroleum Refining—(Indiana, Illinois, Kentucky Area): | | | | | | | |
| Crude Run to Stills..... | 188 | 181 | 163 | 147 | 141 | 140 | |
| Gasoline Production..... | 170 | 172 | 157 | 135 | 134 | 134 | |
| Bituminous Coal Production: | | | | | | | |
| Illinois, Indiana, Iowa, and Michigan..... | 152 | 159 | 138 | 136 | 136 | 142 | |
| Building Contracts Awarded: | | | | | | | |
| Residential..... | 325 | 171 | 137 | 178 | 146 | 171 | |
| Total..... | 189 | 147 | 121 | 110 | 130 | 122 | |
| Department Store Net Sales: * | | | | | | | |
| Chicago..... | 106 | 117 | 203 | 92 | 87 | 192 | |
| Detroit..... | 126 | 128 | 219 | 101 | 91 | 203 | |
| Indianapolis..... | 124 | 135 | 248 | 98 | 98 | 218 | |
| Milwaukee..... | 116 | 123 | 217 | 89 | 90 | 193 | |
| Other Cities..... | 114 | 118 | 223 | 93 | 84 | 203 | |
| Seventh District—Unadjusted..... | 113 | 121 | 213 | 94 | 89 | 197 | |
| Adjusted..... | 135 | 154 | 126 | 112 | 112 | 117 | |

*Daily average basis.

| EMPLOYMENT AND PAYROLLS SEVENTH FEDERAL RESERVE DISTRICT | | | | | |
|---|---------------------------|---------------------|---|---------------------------------------|---------------|
| Industrial Group | Week of February 15, 1942 | | | Per Cent Change from January 15, 1942 | |
| | Number of Reporting Firms | Number of Employees | Wage Payments (In thousands of dollars) | Number of Employees | Wage Payments |
| DURABLE GOODS: | | | | | |
| Metals and Products ¹ | 1,826 | 599,978 | 24,277 | +0.6 | +2.8 |
| Transportation Equipment..... | 390 | 306,094 | 15,337 | -12.8 | -8.6 |
| Stone, Clay, and Glass..... | 268 | 21,585 | 681 | -2.7 | +4.4 |
| Wood Products..... | 444 | 60,724 | 1,680 | +0.5 | +3.0 |
| Total..... | 2,928 | 988,381 | 41,975 | -4.0 | -1.6 |
| NON-DURABLE GOODS: | | | | | |
| Textiles and Products..... | 414 | 73,709 | 1,726 | +2.1 | +6.3 |
| Food and Products..... | 1,008 | 123,643 | 3,789 | -0.1 | -2.4 |
| Chemical Products..... | 305 | 41,453 | 1,524 | +0.0 | +1.6 |
| Leather Products..... | 171 | 34,751 | 969 | +2.4 | +6.8 |
| Rubber Products..... | 37 | 18,956 | 640 | -4.8 | -4.8 |
| Paper and Printing..... | 676 | 88,965 | 2,981 | -1.3 | -2.6 |
| Total..... | 2,611 | 381,487 | 11,629 | +0.1 | -0.2 |
| Total Mfg., 10 Groups..... | 5,539 | 1,369,868 | 53,604 | -2.9 | -1.3 |
| Merchandising..... | 4,782 | 142,706 | 3,527 | -0.7 | +0.4 |
| Public Utilities..... | 957 | 106,955 | 3,951 | -1.2 | +0.3 |
| Coal Mining..... | 47 | 7,576 | 288 | -1.0 | * |
| Construction..... | 729 | 11,524 | 451 | -0.1 | -1.5 |
| Total Non-Mfg., 4 Groups..... | 6,515 | 268,761 | 8,217 | -0.9 | +0.3 |
| Total, 14 Groups..... | 12,054 | 1,638,629 | 61,821 | -2.6 | -1.1 |

¹Other than transportation equipment.

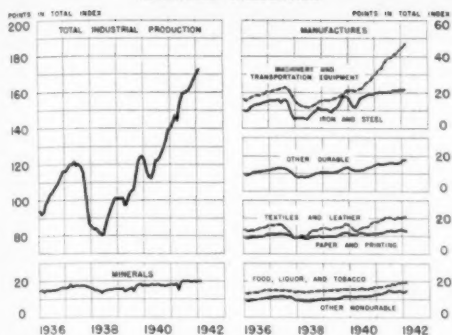
*Increase of less than one per cent.

Data furnished by State agencies of Illinois, Indiana, Michigan, and Wisconsin.

| BANK DEBITS Debits to deposit accounts, except interbank accounts | | | | | |
|---|---------------------------|------------|------------|--------------------------------|-----------|
| | (In thousands of dollars) | | | Per Cent Change Mar. 1942 from | |
| | Mar. 1942 | Feb. 1942 | Mar. 1941 | Feb. 1942 | Mar. 1941 |
| ILLINOIS: | | | | | |
| Aurora..... | 16,276 | 13,595 | 14,505 | +20 | +12 |
| Bloomington..... | 17,325 | 16,503 | 15,081 | + 8 | +18 |
| Champaign-Urbana..... | 19,458 | 15,817 | 18,612 | -23 | + 5 |
| Chicago..... | 4,484,963 | 3,380,025 | 3,998,980 | +33 | +33 |
| Danville..... | 13,091 | 10,857 | 11,713 | -21 | +12 |
| Decatur..... | 27,841 | 23,456 | 24,416 | +19 | +14 |
| Elgin..... | 11,287 | 9,219 | 9,279 | -22 | -22 |
| Moline..... | 12,354 | 10,875 | 10,176 | +16 | +21 |
| Pecora..... | 87,773 | 70,437 | 69,790 | +25 | +26 |
| Rockford..... | 48,225 | 40,114 | 38,204 | +20 | +28 |
| Springfield..... | 34,129 | 26,322 | 30,275 | +30 | +13 |
| INDIANA: | | | | | |
| Fort Wayne..... | 49,640 | 42,168 | 37,616 | +18 | +32 |
| Gary..... | 23,075 | 21,445 | 20,187 | + 8 | +14 |
| Hammond..... | 12,443 | 11,068 | 10,472 | +12 | +19 |
| Indianapolis..... | 321,765 | 281,648 | 253,103 | +14 | +27 |
| South Bend..... | 66,941 | 48,729 | 56,067 | +37 | +19 |
| Terre Haute..... | 31,179 | 27,751 | 27,342 | +12 | +14 |
| IOWA: | | | | | |
| Cedar Rapids..... | 38,217 | 33,215 | 32,482 | +15 | +18 |
| Clinton..... | 8,601 | 7,533 | 7,076 | +14 | +22 |
| Davenport..... | 29,830 | 24,869 | 27,346 | +20 | + 9 |
| Des Moines..... | 154,714 | 110,163 | 121,069 | -40 | -28 |
| Dubuque..... | 12,769 | 11,500 | 10,505 | +11 | -21 |
| Marion City..... | 16,451 | 12,795 | 11,157 | +29 | +47 |
| Muscatine..... | 4,976 | 3,857 | 3,830 | +29 | +30 |
| Sioux City..... | 57,301 | 52,308 | 41,114 | +10 | +39 |
| Waterloo..... | 30,536 | 25,682 | 21,398 | +19 | +43 |
| MICHIGAN: | | | | | |
| Adrian..... | 5,836 | 4,984 | 5,536 | +17 | + 5 |
| Battle Creek..... | 20,006 | 20,069 | 16,448 | + 2 | +22 |
| Bay City..... | 16,718 | 13,714 | 13,638 | +22 | +23 |
| Detroit..... | 1,488,989 | 1,290,604 | 1,360,193 | -15 | + 9 |
| Flint..... | 42,173 | 30,754 | 37,366 | +37 | +13 |
| Grand Rapids..... | 72,593 | 64,024 | 67,955 | +13 | + 7 |
| Jackson..... | 23,834 | 19,949 | 19,780 | +19 | +20 |
| Kalamazoo..... | 33,747 | 27,777 | 28,769 | +21 | +17 |
| Lansing..... | 35,125 | 32,086 | 29,544 | + 9 | +19 |
| Saginaw..... | 27,467 | 26,243 | 28,023 | + 5 | - 2 |
| WISCONSIN: | | | | | |
| Green Bay..... | 22,423 | 18,703 | 17,154 | +20 | +31 |
| Manitowish..... | 10,381 | 8,861 | 8,265 | +17 | +26 |
| Milwaukee..... | 459,530 | 345,151 | 341,811 | +33 | +34 |
| Oshkosh..... | 12,848 | 10,822 | 10,677 | +19 | +20 |
| Sheboygan..... | 29,393 | 29,214 | 20,514 | + 1 | +43 |
| SEVENTH DISTRICT: | | | | | |
| 41 Cities..... | 7,932,713 | 6,274,736 | 6,927,458 | +26 | +15 |
| UNITED STATES: | | | | | |
| 274 Cities..... | 49,175,000 | 41,550,000 | 44,558,000 | +18 | +10 |

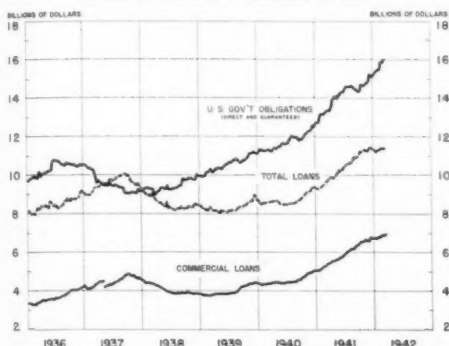
*Decrease of less than one per cent.

INDUSTRIAL PRODUCTION



Federal Reserve monthly index of physical volume of production, adjusted for seasonal variation, 1935-1939 average = 100. Subgroups shown are expressed in terms of points in the total index. Latest figures shown are for February 1942.

MEMBER BANKS IN 101 LEADING CITIES



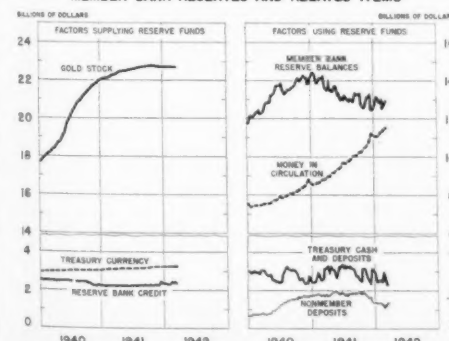
Wednesday figures. Commercial loans, which include industrial and agricultural loans, represent prior to May 19, 1937 so-called "Other loans" as then reported. Latest figures shown are for March 11, 1942.

WHOLESALE PRICES



Bureau of Labor Statistics' weekly indexes, 1926 average = 100. Latest figures shown are for week ending March 21, 1942.

MEMBER BANK RESERVES AND RELATED ITEMS



Wednesday figures. Latest figures shown are for March 11, 1942.

National Summary of Business Conditions

(By the Board of Governors of the Federal Reserve System)

Industrial activity increased further in February and the first half of March. Retail trade was sustained at high levels and commodity prices continued to advance.

Production—In February the Board's seasonally adjusted index of industrial production rose from 171 to 173 per cent of the 1935-39 average. As in other recent months, activity in the durable goods manufacturing industries, where the majority of military products are made, continued to advance, while in industries making nondurable goods and at mines activity was maintained at about the levels reached last autumn.

Steel production rose to 96 per cent of capacity in February and increased further to 98 per cent in the third week of March—which corresponded to an annual rate of nearly 87 million net tons. Lumber production also increased, following less than the usual seasonal decline during the previous two months. In the machinery and transportation equipment industries, now engaged mainly in armament production, activity continued to advance rapidly as plant utilization increased and capacity expanded. Conversion to armament production in the automobile industry, where output of civilian products was discontinued in early February, is apparently being effected much more rapidly than had been anticipated earlier.

There were further increases in output at cotton textile mills and at chemical factories, reflecting an increasing amount of work on military orders. At meat-packing establishments activity was maintained near the high rate reached in January. Shoe production increased by less than the usual seasonal amount. Anthracite production rose sharply in February and bituminous coal production was maintained near the high rate of other recent months. Output of crude petroleum, which had been at record levels in December and January, declined somewhat in the latter part of February and in the first half of March, reflecting transportation difficulties.

Construction—Value of construction contract awards increased considerably in February, according to figures of the F. W. Dodge Corporation, owing mainly to a sharp rise in awards for public projects. Total awards in February were half again as large as last year, and public awards were about three times as large.

In nonresidential building, awards for public projects increased materially, while those for private projects continued to decline. There was a slight rise in awards for public utility construction.

In residential building, contracts for private work changed little from January, while those for publicly-financed projects increased sharply and amounted to about half of the total for the first time on record. For the past six months there has been a noticeable shift in privately-financed housing activity from building for owner-occupancy to building for sale or rent; in February, awards for the former constituted only about one-fifth of the small-homes total. This shift is attributable mainly to the activity in defense areas and to legislation enacted last spring making possible the insurance of mortgages taken out by builders.

Distribution—Value of retail trade continued large in February. Sales at general merchandise stores and variety stores increased more than seasonally, while sales at department stores declined. In the first half of March department store sales increased by about the usual seasonal amount.

Freight-car loadings, which in January had been unusually large for this time of year, declined somewhat in February owing to smaller shipments of coal, grain, and miscellaneous freight.

Commodity Prices—Wholesale prices continued to advance from the middle of February to the middle of March, particularly those for finished consumer goods such as meats, fruits and vegetables, shoes, clothing, and household items. Temporary maximum price orders were issued covering wholesale prices of some of these products, including pork, canned fruits and vegetables, finished cotton and rayon fabrics, cotton rugs, and bedding equipment. These orders, according to statute, used as maximums the prices prevailing within five days prior to issuance. They are effective for only 60 days and may be replaced by regular schedules.

Treasury Financing and Bank Credit—In March income tax receipts by the Treasury for the first time reflected the higher schedule of rates. The effect of these receipts on the money market was largely offset by redemption of Treasury bills previously issued to mature during the tax collection period, by tax-anticipation notes turned in on payment of taxes, and by continued heavy Treasury expenditures. As a consequence a record volume of Treasury operations was effected with little influence on conditions in the market. Excess reserves of member banks showed no large change and on March 18 amounted to about \$3.2 billion.

United States Government obligations held by member banks in leading cities showed little change during the first three weeks of March following a sharp rise in February. Commercial loans increased further.

United States Government Security Prices—Prices of United States Government bonds advanced steadily from the middle of February to the middle of March. Long-term taxable bonds yielded 2.35 per cent compared with an average of 2.39 per cent in February. Prices of short-term securities have held steady since the first of the year, with Treasury bills selling at around .20 per cent.

SEVENTH FEDERAL



RESERVE DISTRICT



